IED WORKING PAPER

International Economics Division · Economics and Statistics Service · USDA

BACKGROUND INFORMATION

on the

EXPORT MARKETING POTENTIAL

of

U.S. FARMER COOPERATIVES

JANUARY 1981

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PREFACE

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Along with the traditional concern over price and income policy, several new issues have emerged since 1977. Of particular significance as we move into the decade of the eighties are such matters as inflation, energy, credit, conservation of our resource base, the increasing international role of U.S. agriculture, and the design and implementation of both domestic and international food assistance programs.

This report is a product of the ESS research agenda for the 1981 food and agriculture bill. It addresses the issue of export potential for U.S. farmer marketing cooperatives. It finds that there is potential for increasing exports by cooperatives if internal attitudes within cooperatives change and if the executive branch policies overseas increase the opportunity for cooperatives to engage in exports.

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EXPORT POTENTIAL FOR U.S. FARMER MARKETING COOPERATIVES

By
Donna Vogt*

Introduction

The expansion of overseas markets by U.S. farmer marketing cooperatives is of critical importance in the 1980s because of the increasing importance to the U.S. economy of expanding agricultural exports. There are three major areas where cooperatives could expand their export potential. One involves the reordering of cooperatives' traditional attitudes towards exporting. Another concerns the promotion of fiscal and domestic policies by legislative means that are more favorable to agricultural exports. A third is concerned with the executive branch's adoption of policies in the foreign economic sphere that increase the opportunity for cooperatives to engage in exports.

This paper discusses some of the problems that cooperatives face in the export field that are relevant to congressional consideration of the 1981 food and agriculture legislation. Cooperatives have received substantial public assistance in the past. At the present time five out of six U.S. farmers are members of one or more of the 6,700 local farm cooperatives which have a combined membership of some 5.8 million.

Legislation involving cooperatives currently before Congress deals with fiscal policies that give cooperatives greater access to financial markets and insures against risks arising from instability abroad. U.S. domestic policies and programs which assist and increase the physical capacity of the inland transportation system, and trade promotion through the National Export Policy Act of 1980, will lend assistance in promoting co-op exports. Cooperatives claim that foreign policies, PL 480 agreements, emergency demands for grain from less developed countries (LDCs), and the Soviet grain sales suspension all reduce the competitiveness of cooperatives in relation to multinational trade firms.

The most important issue for cooperatives in expanding markets overseas is internal to cooperatives themselves. Although the cooperative structure set up by legislation places some constraints on the business practices of cooperatives in overseas markets, their general risk-averse attitude is a major obstacle to expanding exports.

There are several levels of government support that are considered here. Cooperatives are basically business firms and, like most businesses, they try to maximize profits. By getting a high market price for their members' production, cooperatives are one channel through which farmers can increase their income.

In addition to the member benefits, cooperatives have three intrinsic benefits to society. Cooperatives effectively compete with other firms in prices paid to producers, thus keeping consumer costs down. Second, net savings from cooperative earnings are returned to members in rural communities rather than siphoned off to

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investors in remote cities or countries. The local rural economy is thus strengthened through a multiplier effect. Finally, the maintenance of population in rural areas leads to a quality of rural life that is highly valued by those who have experienced it.

Structure

Farmers organize around the products they sell and their cooperatives reflect this. The relative size of cooperatives in terms of members and sales depends on the commodity that members produce. The majority of farmer cooperatives are relatively small as are their markets. Almost 82 percent of all cooperatives in the United States had revenues of less than $5 million in 1976; more than 92 percent had revenues of less than $10 million. Only seven large grain-selling co-ops had revenues of more than $1 billion.

Farmer marketing cooperatives are business organizations formed and owned by farmers to extend control over their agricultural production beyond the farm level to one or more levels or stages of marketing. Historically, these cooperatives were formed to provide competition to other private firms selling to and buying from farmers. Cooperatives are controlled democratically by members, provide members with services such as seeds and fertilizers at cost, and give members a return on their investment.

The equity capital of the cooperative is obtained from membership dues. This money is used by the co-op board of directors as it sees fit. When a cooperative makes money either from sales of commodities or from sales to members, the cooperative divides the net margin made among the members according to the amount of their patronage of cooperative services. These payments are called patronage refunds or dividends.

Legal Structural Issues

There are eight Federal laws specifically relating to cooperatives: The Capper-Volstead Act of 1922; the Clayton Act of 1924; the Cooperative Marketing Act of 1929; the Rural Electrification Act of 1935; the Agricultural Marketing Agreement Act of 1937; the Agricultural Fair Practices Act of 1967; and the Farm Credit Act of 1974.

The Capper-Volstead Act of 1922, the basic legislation for farmer marketing cooperatives, is imprecise on what constitutes a cooperative. It states that cooperatives are associations of producers which operate for the mutual benefit of members as agricultural producers. The bylaws serve as the legal basis of the co-op and prescribe how members vote: either on a one-vote-per-member basis, or how each member will be represented otherwise. The dollar value of business with members must exceed that of the dollar value of business conducted with non-members. The Capper-Volstead Act states that co-ops are exempt from anti-trust legislation and that co-op associations may be incorporated or unincorporated. They may be organized with or without capital stock; they may engage in interstate commerce; they may have marketing agencies in common; and they must not enhance prices unduly on products they sell.

Basically the eight acts give cooperatives legal non-profit status in the United States. They insure legal protection against anti-trust legislation for farmers who unite to control the marketing of their production, to get service at cost, and to increase farmers' income on the basis of patronage within the cooperative structure.

To determine a cooperative's eligibility for various exemptions and privileges, courts examine how a cooperative operates. A co-op must treat all members alike in pricing, allocating earnings, and selling only the products of members. Many farmers join cooperatives in order to gain access to this marketing option. If they were not members, they could not sell their production to the cooperatives. The "tax exempt" status also allows cooperatives to deduct dividends paid on capital stock and other equity, as well as patronage payments, from profits on sales to non-members. But they are taxed on all retained earnings on equity capital, the member's total ownership in the cooperative.

The anti-trust exemptions are only available to cooperatives that do not restrain trade through monopolistic practices or undue price enhancement. Cooperatives, by law, must keep their prices in line with the long-run costs of production, and with prices of products from alternative sources. Furthermore, they are not permitted to earn "unreasonable" or "monopolistic" profits. There are no size limitations under these exemptions.

The Changing Size of U.S. Farms

In the last decade, mechanization has led to consolidation of farms which, in turn, results in declining farm numbers but increasing average farm size. These larger farms have increased capital and managerial requirements and some are similar to manufacturing industries. Poultry raising, especially broilers and turkeys, is an example of agricultural production remade along industrial lines. The public policy question that arises is whether this concentration and movement toward industrialization should be allowed to increase further.

In a broad sense, cooperatives have become a force that favors the family farm structure as opposed to industrialization in farming. A family farm is defined as one on which the farmer and his family supply most of the labor. They constitute 95 percent of all farms and produce about two-thirds of all farm products for sale. This proportion has not changed for decades. Much of the increase in the number of corporate farms has come from the incorporation of family farms. Of the 21,500 farm corporations operating in 1969, 90 percent were family corporations, formed primarily for tax purposes, managerial advantages, better access to credit, and for easing transfer of the farm between generations. These corporations have ten or fewer shareholders and are indistinguishable from ordinary large family farms. Some corporations continue to belong to cooperatives for access to markets, especially if the corporation is small. If it is large and worked only by hired labor, there is little incentive to belong to a marketing cooperative for markets.

The trend is clear. Small farms are growing larger. Cooperatives, in some areas, have felt threatened by this change because fewer, larger farms means a reduced membership base. If members sell production elsewhere, it also means reduced marketing activity.

Many part-time farmers, who depend on off-farm income as their primary means of livelihood, may not have agricultural interests as their main focus. When these farmers join cooperatives, the cooperatives have to harmonize these diverse membership interests with the interests of those relatively few operators who comprise the majority of the cooperative's business.

There are a few policy actions that could slow the trend of increasing farm size. A progressive tax on farm real estate, tough inheritance laws, or limitations of government payments to farmers would limit the take over of small farms by larger farms. If rural development were emphasized, more non-farm jobs would be created which might interfere with the supply of labor for the bigger farms. It seems true that small and moderate-sized operations can better compete with large-scale farms and can improve their terms of trade by joining together in cooperatives. But cooperatives need to perfect their own expertise in order to compete and remain in existence.

Big Business Practices

To compete effectively cooperatives must achieve economies of size, efficiencies, and market power comparable to other business competitors. Cooperatives quickly learned that they could only control marketing of their products by consolidating into regional and interregional cooperatives. In some cases, rivalries have developed between cooperatives for members, production, and markets. Some of these rivalries were solved through joint ventures when cooperatives shared marketing facilities. Other regions and commodities still face fierce competitive struggles. The co-ops also found that they could not easily get reduced bulk rates on shipping when shipping small quantities. Yet cooperatives around the country handle and originate 40 to 50 percent of all U.S. grains that are exported. If they improved their integration and coordination with other cooperatives, then farmers through their co-ops could capture more of the value added to the product between the farm and the ultimate consumer overseas. Co-ops have also learned some trading techniques from larger multinational firms. They have taken steps to increase their presence in the export trade by buying more port elevator facilities. In 1979 eleven cooperatives joined together to purchase a marketing firm in Germany.

Cooperatives have a number of operating restraints. Many cooperatives are limited through their legal structure to the agricultural products produced by members and cannot diversify into non-farm related activities which could cover other costs. They often do not or cannot provide the mix of commodities that some buyers want because of this limitation. Cooperatives also find it impossible to enforce a self-imposed supply limitation. Members produce what and how much they want, and cooperatives are forced, through marketing agreements and bylaws, to buy and market all output offered for sale. An additional restraint derives from cooperatives' orientation toward member benefits. Their primary interest is not in developing new products or undertaking risky innovations.

Risk-taking and Information

It is claimed that it is more difficult for cooperatives to take large risks in the export market than private firms because of the more direct involvement of members who, by custom, have more of a say in policies than private firm stockholders. Members need to learn the kinds of skills, information, and expertise exporting involves in order to make good judgements at the right time. Management must give them the right kind of information to take risks, and this teaching process takes time.

In order to buy and sell in the international market, both cooperatives and private firms need a system for gathering a wide range of market intelligence. Cooperatives need worldwide situation and outlook information including prices,

production levels, stocks, and export and import volumes by country in order to make judgements on markets.

Other needed information concerns current import regulations, such as import licensing, quotas, foreign exchange allocations, and methodologies by which governments price their imports. The cooperatives also need information on trade agreements, current tariffs, anti-dumping laws, and preferential tariffs through membership in trade blocks.

It is especially important to identify major competitors in an importing country and to know their sales strategies. Cooperatives also need to know the credit ratings of buyers and the kinds of credit terms normally used. Currency exchange rates are important because a small change in the rate can determine whether or not a transaction is profitable.

Information on port and transport facilities is crucial for grain exporters including cooperatives. Will grain elevators be available at the right time and will the depth of the port be adequate for the ships? What are the unloading delays common in a port, and the costs of port taxes, fees, and storage at various locations? What is the status of the internal road and rail transport system and the cost and availability of barges, ships, and rail cars? Such information on the physical or logistical conditions along with cultural customs is extremely important when profits are often made on the timeliness of the delivery of a commodity.

Decision Making and Management

Even with all the right kind of information, cooperatives still have several weaknesses to overcome in expanding their share of the export market. Decisions come more slowly in democratically controlled cooperatives than in businesses under more centralized control. Cooperative managers must give more attention to members' relations and to keeping members informed than do managers of other forms of business organizations who need only involve majority stockholders. While boards of directors of co-ops have the authority to make major decisions, they must not only receive timely information but also often feel compelled to discuss the decision with the membership beforehand. This decentralized process complicates both the timing of sales and the quick reacting necessary to take advantage of market opportunities.

At times members of larger scale voluntary organizations easily become disinterested in their cooperative's business because they view it as being too large for them to have individual influence. Non-participation becomes especially acute among second and third generation members who have not participated in the cooperative's development and, thus, may not appreciate the value of membership.

Member-owners of cooperatives vote for boards of directors and entrust them with the task of hiring managers. Cooperatives are at a slight disadvantage in finding executives trained in cooperative operating principles and practices because few business schools offer such courses. However, by paying "top dollar" this disadvantage could be overcome. Co-ops managers can hire the necessary expertise on the constantly changing conditions and regulations of international trade. It is only with this expert advice, good judgement, and a supportive board, that management can explore, penetrate, and eventually increase a cooperative's market share of exports.

Expertise is also needed in setting realistic annual and long-term goals. It takes a long time to build an effective trading system, and cooperatives must be competitive in meeting the terms of contracts and commitments to quality during this investment period. They need efficient marketing and delivery systems to carry on trade since business reputations are extremely important in trade, and they need to be carefully handled by knowledgeable management teams.

Issues and Options

The largest obstacles to increasing cooperative exports are internal and derive from the structure of the organizations themselves. They involve taking risks and hiring good management that can establish information systems, educate the membership, and make timely decisions that bring net margin returns to cooperative members. Congress cannot legislate risk-taking.

Congress could expand the resources given to the U.S. Department of Agriculture to provide technical assistance to cooperatives on these internal issues. It could support training in cooperativism in college curriculums. It also could increase the resources for Foreign Agricultural Service attaches, stationed in embassies around the world, who assist in the development of information systems and who provide information needed by export businesses.

Should Congress become involved with the changing organization of American agriculture? Would a limitation on the size of farms serve to make U.S. agriculture more productive? Cooperatives are looking for new membership definitions that maintain their legal non-profit, tax-exempt status and could ask Congress for a revision of some of the eight basic legal statutes. So far cooperatives have not done this.

Fiscal Policies

In order for cooperatives to make and keep trade commitments, they must have the financial resources to accumulate large amounts of capital either through the equity of the membership or through loans from banks or other lending institutions. This capital is needed to purchase supplies of commodities from members, and to purchase or lease facilities to move, pack, store, and ship these goods in order to fulfill contracts. As cooperatives penetrate deeper into the export marketing process, the need for these financial resources becomes greater.

Commercial Banks

Approximately 200 U.S. commercial banks do business in international trade. U.S. cooperatives have been using commercial bank services to finance export trade. As with any sale, cooperatives shop for the "least cost" money that can finance their exports. As cooperatives' need for money increases with an increased volume of exports, commercial banks will probably play an increasing role in these transactions. Because these banks get insurance from the Federal Government for almost any transaction, they lend large sums for exporting. Today, these banks are meeting many of the financial demands of cooperatives.

Banks for Cooperatives

The cooperative banking system developed several decades ago in response to financial needs of farmer cooperatives which were not being adequately met by

commercial banking institutions. The new system made loans at competitive interest rates and tailored services to the needs of cooperatives. It also provided advisory services that were invaluable to directors and administrators of fledgling associations that otherwise might not have survived. The continued growth of the system, and the total repayment of initial capital provided by the Federal Government, indicates that the system is economically viable and provides needed services.

At the present time the cooperative banking system annually lends about $900 million in the form of seasonal loans for the handling and storage of agricultural commodities that ultimately are delivered to foreign markets. For co-ops to develop export markets, the system must establish correspondent relationships between foreign and U.S. banks which cover: the issuance, receipt, and guarantee of lines of credit; credit reports including information about past and prospective payment records; international currency exchange; legal advice; and other documents for effective handling of sales of U.S. farmer cooperatives.

In order to carry out effective international trade, the Banks for Cooperatives need a flow of information from U.S. and foreign correspondent banks and from other sources to assist exporting cooperatives. With extended financial information systems overseas, co-ops would know sooner and in greater detail what was happening in international trade as well as in foreign currency markets. They also would be able to obtain information about each potential buyer's payment record, reputation, and ability to pay. If a cooperative wished to evaluate a prospective sale, it would have a source of prompt advice relative to the stability of the currency and, if currency hedging were advisable, what the cost and risk would be.

Farm Credit Act Amendments of 1980

These amendments, signed into PL 96-592 on December 24, 1980, authorize Banks for Cooperatives to give loans to finance sales directly to foreign buyers, and to make purchases directly from foreign sellers. With the new export financing provisions in the bill, the system's total export-related volume of loans will increase to about $2 billion from the $900 million now authorized. One of the reasons advanced for this large increase is the financial requirements related to the process of chartering (leasing) ocean going vessels when co-ops sell c.i.f. overseas. To charter successfully, an exporter needs large amounts of money to pay ocean freight charges prior to delivery of grain; to pay domestic grain suppliers before payment is received from foreign buyers; and to meet related interest, documentation, and other charges. If the exporter extends special credit terms to a buyer, additional capital is needed because the time interval between payment to suppliers and receipt of monies due from the buyer is lengthened.

The bill also includes provisions for investments in ownership interests in foreign financial institutions that would enable the Banks for Cooperatives to utilize existing expertise and structure of foreign banks to obtain credit reports, to receive expressions of buyer interest, to minimize currency exchange risks, and to obtain information relevant to legal factors, documentation, and loan service requirements. By using these facilities, the Banks for Cooperatives can obtain needed export-related services at minimal expense. This means lower charges to their U.S. farmer cooperative clients.

The legislation in the Farm Credit Act Amendments of 1980 would allows the banks to make loans to third parties as long as the major beneficiary of such a loan or

loans is an eligible cooperative or cooperatives. It provides for additional financing services that would enable cooperatives to obtain the use of needed domestic and export-related facilities and equipment at minimum cost either through purchase or leasing. They could shift much of the long-term capital burden for major domestic and export-related facilities and equipment from cooperatives to equity investors.

The Farm Credit Act Amendments of 1980 will encourage cooperatives to expand their exports by giving them larger financial resources. Further growth of exports by cooperatives is likely to result primarily from an increase in total U.S. agricultural exports.

Capital Formation

Capital formation is a growing challenge facing cooperatives. As farmer-owned businesses, cooperatives are limited to raising equity from their members which, in turn, limits their capacity to secure borrowed capital. When ownership becomes increasingly separated from farm operations, capitalization of cooperatives becomes an issue. If farmers are to remain in control, they must find ways to attract the necessary capital to operate complex cooperative business organizations without relinquishing ownership.

A recent study showed that U.S. cooperatives have $7.7 billion or 42 percent of total assets in equity capital. While the trend toward increased borrowed capital continues, a proper balance must be attained to assure that cooperatives operate in members' best interest. This requires that net margins from cooperative operations support both cooperative and farm firm growth. In 1976, cooperatives' net margins returned to farmers increased total U.S. net farm income by 7 percent.

Insurance

Federal Government agencies have extensive guarantees for loans given to cooperatives for international exports. The Commodity Credit Corporation (CCC) gives guarantees on letters of credit. The Foreign Credit Insurance Association (FCIA) gives casualty and marine insurance to exporters. The Export-Import (Ex-Im) Bank reinsures FCIA transactions, guarantees open accounts, and guarantees letters of credit with foreign buyers. The Ex-Im Bank insures agricultural commodities up to 360 days, twice as long as other goods, but makes exporters retain 2 percent of the risk of a transaction. The net margin is sometimes very small in the exporting of grains and 2 percent could be a substantial amount of money.

The rates charged by these Federal agencies depend on the amount of time for repayment and the amount of risk the agency judges is involved in the transaction. Some buyers or countries are greater risks than others. Cooperatives claim that most of the rates are too high; the agencies claim they are not charging what the market could bear.

There is a general requirement for this kind of insurance. Exporters must turn over to the insurer all their short-term exports for insurance, so that the insurer can spread risks among high and low-risk buyers and countries. The exporters and cooperatives object to this practice. They want insurance only in high risk situations. But insurance companies and agencies must spread risks in order to stay in business.

Issues and Options

Congress gave U.S. cooperatives important (financial) assistance by passing the Farm Credit Act Amendments of 1980. This act gives the Banks for Cooperatives more resources to expand their role in international trade. However, commercial banks, which have been handling the cooperatives' direct export transactions until now, may lose some business.

Both the banking and insurance components of U.S. fiscal policies already have extensive Federal Government involvement. The option for Congress is to consider whether there is need for more; whether they should maintain programs at their same level; or whether they should decrease their support. Certainly the removal of the "general requirement" for whole turnover of exports for insurance would allow exporters to insure only commodities going to high risk buyers.

Capital formation problems may become increasingly important as the size of the farms increases along with their needs for greater capital. Cooperatives internally must decide what percentage of borrowed capital can safely be handled by their membership. Congress may in the future be asked to set limits on this amount.

Domestic Policies

There are several domestic issues that pertain directly to augmenting the U.S. export trade in agricultural commodities vis-a-vis inland transportation, and the general promotion of overall U.S. goods for export. There is a growing concern among the cooperatives and other exporters over the effectiveness and collective impacts of government programs. With the changing size of farms in U.S. agriculture, there is a question whether the concentration of production means the concentration of benefits. Another question arises whether these benefits are going to those that need them the most, or whether cooperatives are giving more return on the members' production than private non-cooperative firms. What are the cumulative results of government commodity programs, tax provisions, environmental regulations, workers health and safety regulations? These are some of the questions that may be considered in future legislative sessions.

Inland Transportation System

To increase the efficiency of the transportation system it is necessary to first examine the problem areas within the U.S. transportation system to understand how local, state and/or country-wide systems can produce bottlenecks for exports. By removing some of the obstacles to an efficient transportation system, cooperatives and other businesses will be able to lower export costs.

Agricultural commodities move to ports for export on railroads, barges, or in trucks. Grain is placed in port elevators to be loaded onto ships. Large numbers of jumbo covered hopper cars carrying 200 tons of grain each have recently replaced the old narrow-door boxcars. Large unit trains of 100 or more of these jumbo cars could easily ship larger quantities of grain directly to port elevators. They cannot now because many inland railroad yards can handle only 75 of these cars at one time, thereby slowing larger grain movements. The U.S. Government has spent a great deal of money in the last decade to improve railroad beds and modernize rail machinery. Railroad terminals and yards need similar investments.

The most controversial issue for cooperatives which deals with grains concerns the abandonment of certain rail lines. Co-ops fight these abandonments because cooperative members need these services. If the co-ops cannot move their grain easily by the cheapest transport (rail), they will not be able to compete with multinational firms. Therefore, the abandonment of some lines is a direct threat to co-op export potential.

A possible bottleneck in the barge transport network involves the competition with coal for barge space, although 1,000 new covered barges were added to the fleet in the last year. The slowness of improvements to Lock and Dam 26 on the Mississippi River--where lengthy waits make shipping costs higher--is an obstacle to increasing exports. (The U.S. Army Corps of Engineers is in charge of the improvements.) Of some concern to the barge industry is the waterway user's tax which is scheduled to be effective beginning in October 1981. This tax could have adverse effects on the volume of barge trade.

Trucks hauling short distances have greatly increased their share of the inland transportation business because their turn-around time on shipments can be one day if trips are 400 miles or less. Shippers, thereby, do not pay interest and storage costs as with rail cars or barges. The trucking industry has recently received legislative assistance from the Motor Carrier Act signed on July 1, 1980. This act recommended that through written contracts, truckers could spread risks for the loading and unloading of produce to shippers and receivers, respectively. The act especially aided cooperatives in shipping by increasing the amount of business that could be done with non-members from 15 percent (imposed in 1968) to 25 percent.

National Export Policy Act of 1980

The National Export Policy Act, S. 2773, introduced on May 29, 1980, recommends that "farm cooperatives must be encouraged to expand their export activities by permitting them a more direct role in export financing arrangements and developing joint marketing ventures." The bill's sponsors hoped to give U.S. agriculture a chance to compete on equal terms in foreign markets. This legislation, left in committee in the 96th Congress, would open more credit through the Commodity Credit Corporation to finance short-term export credit sales of agricultural commodities and increase Export-Import Bank credits for commodities.

Issues and Options

Congress has several options concerning these domestic policies. It can reintroduce the National Export Policy Act. Congress could become more involved in policies surrounding rail line abandonment since many important issues involve the transportation network of this country. It could also put larger resources behind the Lock and Dam 26 project in order to speed up the 1985 completion date. Again, Congress has the option to become more or less involved in the above issues.

Foreign Policies

The growing volume of exported agricultural products has increased the vulnerability of the U.S. food system to foreign policy actions. As agricultural exports become a more positive component of the U.S. balance-of-trade position, they will be increasingly affected by our national trade policy.

Intergovernmental Trade Agreements

Many countries, especially those with centralized purchasing or marketing agencies, conduct a large portion of their trade under trade agreements. Given the propensity of state trading countries to utilize trade agreements, cooperatives who can adapt their exporting capabilities to handle long-term trade agreements may have an advantage in international trade.

The United States has concluded a number of commercial food sales agreements with other countries. Many trading transactions are also made under the aegis of PL 480, Titles I and III. These give less developed countries (LDCs) a chance to purchase food, mainly wheat, on concessional terms from the United States. In both cases, cooperatives could have greater involvement in the negotiations either formally or informally, or they could be given further access to information concerning the negotiated terms. Trade agreements could be a technique by which inexperienced cooperatives gain experience in international trade, because in practice they are difficult to negotiate and to operate. Cooperatives could benefit from a specified range of sales earmarked exclusively for cooperatives, or benefit from a policy that made it imperative that countries considering purchases review price lists from cooperatives.

Support for Foreign Cooperatives

Less developed nations frequently have development goals which include support for their own local cooperatives. It is possible to integrate LDCs' aims, including the financing of processing facilities, with those of U.S. cooperatives in a way that increases their exports by promoting marketing relationships with other cooperatives in foreign countries.

FAO Strategy Papers

The United Nations' Food and Agriculture Organization (FAO) encourages LDC governments to develop food security plans for the future production and distribution of food in their countries. With such a plan or guide, the areas that need foreign assistance are highlighted for donor countries. By planning ahead, LDC's could gain multilateral and/or bilateral assistance to build the kinds of facilities that are needed for larger imports such as ports, storage facilities, and rail or road networks. These plans are also valuable internally for host countries because through this planning process countries can foresee shortfalls in food and can purchase supplies in advance in the world market to contain costs. Otherwise there are sudden emergency demands for grain that inevitably boost world prices and use up valuable LDC foreign exchange. Cooperatives often lose out on these emergency sales at the higher prices because they often do not have as much supply flexibility as larger multinational firms.

Effects of the Sales Suspension

Segments of the agricultural industry are concerned that co-ops are being especially hurt by the USSR grain sales suspension because U.S. cooperatives' sole source of grain is the exclusive production of U.S. farmers. The co-ops do not have other sources of commodities outside the United States that could come under the "uncommitted" category which would allow them to sell their grain to Russia. There is some resentment among U.S. farmers, especially those active in promoting exports, towards the multinational firms that do have this advantage.

Growth in Agricultural Exports

Perhaps the most significant trend of the 1970's was the increase in U.S. agricultural exports. The value of these exports has increased five-fold in 10 years and the volume has almost doubled. Agricultural exports for the fiscal year ending September 30, 1979, totaled $32 billion, an all-time record. Out of 21 commodity groups, only 1--dairy products--failed to show an increase over the previous year. World population and income growth, along with market development and poor harvests, have accounted for increased exports. The net effect has been a demand-pull situation that has caused product prices to increase, particularly since the mid-1970's. Exports of U.S. farm products are heaviest in the food and feed grains, and soybeans. In fiscal year 1979, about 65 percent of U.S. wheat production was exported, 30 percent of corn, 30 percent of sorghum, and 40 percent of soybeans. In 1977-78, it is estimated that the following percent of U.S. grain exports were handled through cooperatives' port facilities: 31 percent of wheat, 13 percent of corn, 42 percent of sorghum, and 21 percent of soybeans (table 1).

In 1976, the last year for which comparable data are available, 73 cooperatives directly exported agricultural commodities from eight separate commodity groups. These had a total value of $2 billion (table 2).

Grain exports were the largest commodity gain in 1976, with 11 cooperatives exporting grain valued at $932 million. Eleven cooperatives exported oilseeds, oil nuts, and other vegetable oil equalling $427 million. Twenty-seven cooperatives exported $293 million in fruits and preparations, while direct exports of cotton by four cooperatives totaled $232 million. Combining just these four commodity groups, direct exports equal $1.9 billion or 93 percent of direct exports of agricultural commodities by cooperatives.

Table 1--Estimates of U.S. crop exports handled through cooperative port facilities in 1977-78

Crop	U.S. exports	Co-op exports	Co-ops' share
	---Million bushels---		Percent
Wheat	1124	478 1/	31
Corn	1948	516	13
Sorghum	213	108	42
Soybeans	700	226	21
Other	139	21	15
Total	4124	1,349	21

1/ Unpublished data of ESCS

Table 2--Direct exports by cooperatives as a percentage of total U.S. exports, 1976

Commodity group 1/	Total U.S. exports	Co-op exports	Co-ops' share	Number of co-ops
	--1,000 dollars--		Percent	
Animals and animal products	2,379,563	34,175	1.4	14
Grains and preparations	10,875,277	931,549	8.6	11
Fruits and preparations	770,079	292,704	38.0	27
Nuts and preparations 2/	198,249	79,479	40.1	3
Vegetables and preparations	674,060	18,360	2.7	12
Feeds and fodders	448,752	10,093	2.3	6
Oilseeds, oilnuts, and products 3/	5,070,368	427,157	8.4	11
Cotton, raw, excluding linters	1,043,669	231,664	22.1	4
All other	591,081	5,464	0.9	7
Total	22,056,098	2,030,645	9.2	73 4/

Source: Hirsch, Donald E. Agricultural Exports by Cooperatives, ESCS, USDA. FCRR August 5, 1979.

1/Excluding tobacco.
2/Excluding peanuts and products.
3/Including cottonseed, flaxseed, peanut oil, corn oil, and other vegetable oils.
4/Some associations export commodities from more than one group.

Overseas Market Promotion

Marketing overseas takes effort and expertise. Cooperatives are relatively new to the business. Cooperatives could put more interest, time, and resources into financing offices overseas to find and maintain foreign customers. Members and management are noticing what overseas buyers want to purchase as opposed to what cooperatives are selling. Regional and interregional cooperatives could negotiate mixed commodity sales. Larger multi-commodity efforts could increase the cooperative's market share.

The more control the cooperative has over its products throughout the market channel, the greater the possibilties of meeting contractual committments and making larger net margins for its members. The more involved the cooperatives become in exporting, the more risks they undertake. There is a movement within U.S. cooperatives that insists that grain co-ops can return healthy profits to farmer

members without always taking on full financial risks of direct exporting. Exporting may not fulfill the co-ops' basic goal which is to find the best market for their farmers' grain, wherever that is. If the co-ops' responsibility for export stops when the grain is out on a vessel, that may be the way of getting the best price available. The best prices are negotiated when there is a good information and trading network set up with a service record behind it that makes buyers want to stay with the trader. Several cooperatives have understood this and on November 30, 1979, seven North American agricultural cooperatives joined four European cooperatives to form Intrade, a new trading organization, to purchase 50 percent interest in Alfred C. Toepfer International, GmbH., Hamburg, West Germany, an international commodities trading organization. The North American cooperatives involved are: Indiana Farm Bureau Cooperative Association, Inc., Indianapolis, Indiana; Gold Kist, Atlanta, Georgia; Agway, Syracuse, New York; Citrus World, Inc., Lake Wales, Florida; Land O'Lakes, Minneapolis, Minnesota; Landmark, Columbus, Ohio; and United Cooperatives of Ontario, Mississauga, Ontario, Canada.

The Toepfer Company has 43 offices in 17 countries and trades about 750 million bushels of grain a year. By buying into this organization, the cooperatives receive immediate and direct access to vital trading intelligence and access to distant markets. This vast organization can purchase and transport grains from anywhere in the world. This provides the critical flexibility required to compete effectively for export sales and gives member cooperatives a feel for what is going on in international markets as well as knowledge of what buyers want.

Overseas Investments

Developing nations need to expand their food supplies and improve their food processing and distribution systems. OPIC, the Overseas Private Investment Corporation, a self-sustaining U.S. Government agency, sponsored milling operations to meet market demand for high grade flour. These operations used millions of bushels of U.S. wheat and were instrumental in raising dietary standards in a number of countries. Cooperatives could take better advantage of OPIC services that provide qualified U.S. investors (including financial institutions and cooperatives) with political risk insurance, financial assistance, and investment counseling. The latter includes preinvestment assistance in finding, defining, and establishing investment projects.

The insurance program could provide cooperatives with coverage on inconvertibility of local currency earnings and return of capital; expropriation and abrogation of contractural rights; and coverage on political risks such as war, revolution, insurrection, and strikes. Cooperatives could also participate more in the direct loan program, the all-risk loan guaranty, and the pre-investment assistance program mentioned previously. With such insurance and loans guaranteed, there would be added incentive for prices to stabilize providing the low-risk conditions cooperatives seem to favor.

Issues and Options

Political actions such as lifting the sales suspension on grains to the USSR, making more intergovernmental trade agreements, and encouraging LDC governments to complete food strategy plans are the most important ways Congress could affect exports by U.S. cooperatives. Most of these actions would be done in accordance with the executive branch of the Federal Government.

Given the tremendous growth in agricultural exports in the last decade, cooperatives, if they decided internally to pursue a policy to increase exports, could capture many more markets through market promotion and investment. Simultaneously, with this pursuit of markets, cooperatives could aid the world-wide cooperative movement by supporting foreign cooperatives through technical assistance or through joint ventures and international coordination of resources.

One option for Congress would be to expand the services of the Foreign Agricultural Service, an agency that actively promotes marketing of U.S. agricultural products through collaborating institutions and collects and distributes marketing information to U.S. businesses. Cooperatives could get this same information. Congress could also target cooperatives for a subsidy to enter trade fairs throughout the world.

Conclusions

All four of these above major issue areas for increasing the export potential of U.S. farmer marketing cooperatives contain aspects that are internal decisions cooperatives must make for themselves. Government services are provided for cooperatives, and cooperatives must want these services. Congress has the option for continuing, increasing, or decreasing these Federal services.

Congress does have certain policy actions available for its agenda. For example, it could reintroduce the National Export Policy Act, which would directly assist U.S. cooperatives by increasing their access to financial resources.

Increasing resources on the inland transportation system would most likely help overall U.S. exports--whereby cooperatives would benefit a ong with other private trading firms.

Foreign policies that minimize restraints on sales and promote overseas marketing, trade agreements, international coordination, investment, and foreign assistance can all have positive ramifications for U.S. cooperative exports.

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